

VZCZCXRO9796
RR RUEHRN
DE RUEHMD #2129/01 3231038
ZNR UUUUU ZZH
R 191038Z NOV 07
FM AMEMBASSY MADRID
TO RUEHC/SECSTATE WASHDC 3821
INFO RUEHSS/OECD POSTS COLLECTIVE
RUEHLA/AMCONSUL BARCELONA 3177

UNCLAS SECTION 01 OF 03 MADRID 002129

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EUR/WE
EEB/IFD/OMA

E.O. 12958: N/A
TAGS: [ECON](#) [EFIN](#) [ELAB](#) [ETRD](#) [KIPR](#) [PTER](#) [SOCI](#) [TBIO](#) [SP](#)
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SUBJECT: MADRID WEEKLY ECON/AG/COMMERCIAL UPDATE - NOVEMBER
12-16

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SPANISH ECONOMY GREW BY 0.7% DURING THE THIRD QUARTER OF 2007

11. (U) The 0.7% quarter-on-quarter GDP growth figure was lower than the second quarter's 0.9%, so it tracks with other signs of a slowdown. The Spanish government forecasts full-year 2007 growth of 3.8%. (Comment: The big question is how much lower growth will be in 2008. The opposition conservative PP party is trying to make the economy an issue in the March 2008 election. Inflation (people are complaining about rising food prices), interest rates, and rising unemployment creation is of concern to the government. The opposition PP is hoping to get some traction on economic issues, even though the overall state of the economy remains good. (Europa Press, 11/13/07)

SPAIN THE NUMBER FOUR FOREIGN INVESTOR IN THE U.S.

12. (U) During the first ten months of 2007, Spanish companies invested USD 21.3 billion in the U.S., behind only Canada, the UK and Holland. BBVA's purchase of Compass Bank and Iberdrola's purchase of Energy East were two of the biggest acquisitions during this period. Other Spanish companies such as Ferrovial, FCC, Acciona, Ebro Puleva, Gamesa, Inditex and Telvent are also very active in the U.S. (Comment: This level of investment in the U.S. is truly new for corporate Spain. Acquisitions, rather than traditional FDI, seem to be the preferred Spanish mode of getting into the U.S. market.) (El Pais, 11/11/07)

UN SYG TO ATTEND VALENCIA IPCC MEETING

13. (U) The Intergovernmental Panel on Climate Change (IPCC) meeting this week in Valencia is scheduled to conclude on Saturday, November 15, with the release of a summary report of the most recent state of knowledge on the science of climate change. This "summary for policymakers" is based on three previously released reports that the USG played a significant role in developing and fully supports. The fourteen person-U.S. delegation is being led by Harlan Watson of OES and Sharon Hays of the White House Office of Science and Technology. U.N. Secretary General Ban Ki-moon plans to attend the closing of the IPCC meeting, and he discussed global warming with Spanish President Zapatero in Madrid on Wednesday, November 14.

CO2 EMISSIONS EXPECTED TO RISE IN 2007 AFTER DECLINING IN 2006

14. (U) Spain's CO2 emissions are expected to increase by 1 percent during 2007 after experiencing a 4 percent reduction in 2006. Electricity generation figures show that through November 12, Spain has increased its production of coal-generated electricity by nearly 5 percent while reducing its use of nuclear electricity by 7.6 percent and natural gas-generated electricity by 2.3 percent. The implication of these shifts, according to the Spanish representative of Worldwatch Institute, is an estimated 1 percent increase in Spain's CO2 emissions for the year. A 1 percent increase would bring Spain's emissions to about 50 percent above their level in 1990. Under the Kyoto Protocol, Spain's emissions are required to be no higher than 15 percent above its 1990 level. An article in the pro-government El Pais newspaper noted that it was the previous government that had agreed to the Kyoto target that now looks unattainable. The article added that European countries' excessive issuance of emissions quotas to companies had caused a dramatic drop in the cost of carbon dioxide emission allowances, reducing the incentive for companies to reduce emissions. The article

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also pointed out inconsistent use of data by the government. When she opened the IPCC meeting earlier this week, Vice President Fernandez de la Vega had cited Worldwatch's estimated 4 percent 2006 decline as proof that it was possible for the economy to grow while emissions declined, but the GoS had not used Worldwatch's 2007 estimate even though it had issued advance forecasts before the end of 2006 when the news was better. (El Pais, 11/15/2007)

COMMERCIAL COUNSELOR AND ECONOFF MEET WITH R&D BASED PHARMACEUTICAL REPRESENTATIVES

15. (SBU) Visiting Pharma representative Jonathan Kimball and a local pharmaceutical industry representative, Gema Delgado, explained on 11/14 that the industry is still trying to persuade the Spanish government to grant retroactive product patent protection for drugs that only benefited from process patent protection prior to 1992. Kimball said that Finland had recently changed legislation in ways that were potentially relevant to the Spanish situation. He said he would send more information. Kimball also said that Pharma representatives would be meeting in the next few weeks with USTR and USPTO representatives to explain the industry's TRIPS rationale for Norway's providing retroactive product patent protection along the lines that industry wants in Spain. (Note: At least in the Spanish case, USG lawyers have not found a TRIPS argument for arguing for retroactive patent law change, although the local industry uses TRIPS arguments in local court cases, in some cases successfully.) Commercial Counselor and EconOff reiterated the Embassy's willingness to broker meetings with the government and to make policy-based arguments on behalf of the R&D-based pharmaceutical industry. Commercial Counselor explained that the Ambassador's 11/14/07 lunch for the Minister of Health, to which pharmaceutical industry representatives were invited, was part of that effort.

AUTONOMOUS COMMUNITIES' 2008 BUDGET PROPOSALS SHOW LARGE INCREASES

¶6. (U) The 2008 Autonomous Communities' budget proposals, which were recently made public, project increases in real terms over 2007. The combined budgets of the regional governments for operations and personnel expenses total 164.4 billion euros, an amount that is 7.8 percent higher than the central government's allocation for similar expenses. Overall, the regional budget total represents a 22.5 percent increase in investment over 2007 and a 7.9 percent increase in administrative funding. The largest increases are proposed by the Basque region, while the largest budgets overall are in Andalucia and Catalonia. (Expansion, Nov. 9)

ETA ESTIMATED TO HAVE COLLECTED 3.5 MILLION EUROS THROUGH EXTORTION SINCE JUNE 2007

¶7. (U) According to research by the Department Head of Terrorism Economics at the University of Madrid Complutense, the Basque terrorist group ETA has successfully extorted approximately 3.5 million euros since the end of its cease fire in June 2007. This amount far surpasses the estimated 1.35 million euros collected by ETA in all of 2006 through the same means. Over the past summer, there were numerous reports of ETA extortion letters reaching businesses in the Basque and Navarra regions. (Comment: ETA continues to carry out occasional attacks, but a combination of good police work and a bit of luck has thus far allowed the GOS to disrupt or thwart several planned attacks.) (Expansion, Nov. 9)

NEW HIGH-SPEED TRAIN TO THE NORTH CLOSE TO OPENING

¶8. (U) Perhaps to show that not all railway news these days is bad, on November 15 Public Works Minister Alvarez took reporters on a test ride on the high-speed "AVE" train connecting Madrid with the northwest cities of Segovia and Valladolid, which is expected to open on December 22. This project, which was co-financed with European Union funds, will cut the travel time to Segovia and Valladolid by a third. This is likely welcome news, given the continuing unanticipated interruptions in Barcelona commuter rail service caused by construction of the long-delayed AVE rail line that will link Madrid and Barcelona. (El Mundo, Expansion, Public Bulletin, 11/16)

SPAIN SIGNS WORK PERMIT AGREEMENT WITH SENEGAL

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¶9. (U) Senegal and Spain signed an agreement granting 2,700 work permits to Senegalese in an attempt to stem the wave of illegal migration to Europe. The agreement was signed by Labor Minister Jesus Calderon on Friday, November 9. A group of 2,000 Senegalese will be trained to work on Spanish fishing boats, and the remaining 700 will be employed in the agricultural sector. (AFP)

JAMON IBERICO ARRIVES IN THE U.S. MARKET, HEADING TO CHINA

¶10. (U) Customs in New York received the first legal shipment of Iberian ham ("Jamon Iberico"), 300 pieces from Salmantina Embutidos Fermin, the only company to meet the current requirements. Separately, after four years of negotiations, Spain and China signed an agreement on November 15 allowing exportation of Spanish pork products into the country. According to Secretary of State in the Industry and Commerce Ministry, Pedro Mejia there are currently ninety Spanish companies interested in selling pork and Jamon Iberico to China. (20 minutos)

GALICIA 5 YEARS AFTER THE PRESTIGE DISASTER

¶11. (U) November 13th marks the fifth anniversary of the most catastrophic oil spill in Europe, when 70,000 tons of fuel

were spilled off of Galicia's coast by the Prestige oil tanker. The fishing villages of Galicia were hit hard as their way of life came to an abrupt end. Thousands of volunteers poured in to help clean up the disaster, and the villagers have moved to other work. There are several manufacturing companies in the area, and more than half of the Spanish naval fleet is manufactured in Galicia. A recent study of seagulls indicated that even birds born a year after the spill had high concentrations of hydrocarbons in their blood. This study suggested that the estimated time of recuperation from the spill may have been underestimated. The Director of the Spanish Oceanographic Institute in Vigo said that almost 98% of the affected area is now clean, even though the vessel continues to leak its remaining fuel.

112. (U) The recycling of the more than 60,000 tons of residual contaminants from the disaster is anticipated to be completed in 18 months, according to the President of the Galician regional government. Emilio Perez Tourino described the recycling process as "a technological pioneer and unique in the world." "Our capability to respond to the collection of hydrocarbourants has multiplied by thirty" thanks to initiatives such as this one. (Note: The company that runs the industrial waste treatment plant that recycled the contaminants is seeking a patent for its recycling process, and countries such as France have expressed interest.) (La Vanguardia Magazine, 11/11/07)
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